

# China Economy

## PMI weakened amid CNY distortions

China's manufacturing PMI showed broad-based softening in Feb amid distortions from the Chinese New Year (CNY). Demand and production both deteriorated, with new order index and export index both dropping to a new low. Nevertheless, reflation continued as raw material and ex-factory prices remained in expansion. Non-manufacturing PMI remained in contraction, as construction sites mostly suspended during CNY. A softening property market, weaker durable goods sales, and slower manufacturing have pointed to fading growth momentum in early 2026. At tomorrow's annual NPC meeting, policymakers may keep the broad fiscal deficit at around 8% of GDP, to underpin the economy, including RMB5.9tn general budget deficit (4% of GDP), RMB1.3tn ultra-long central government special bonds (0.9%), and RMB4.5tn local government special bonds (3.1%) based on our estimates. The 2026 GDP growth target may be lowered to "4.5-5%" compared to "around 5%" in 2025, consistent with the downward revisions seen in recent local "Two Sessions" targets. Any newly introduced policy language on stabilizing the property sector and boosting domestic consumption will be key areas to watch.

### ■ Manufacturing PMI dropped to another low amid CNY distortions.

Manufacturing PMI edged down to 49% in Feb from 49.3% in Jan, below market expectations at 49.7%. Demand notably deteriorated, as new order index dropped to 48.6% in Feb from 49.2%, the biggest contraction since July 2023. New export order also declined to 45% in Feb from 47.8%, signaling the headwinds in exports heading into 2026. Production fell back into contraction at 49.6%. Reflation continued as raw materials purchase price and ex-factory price remained in expansion at 54.8% and 50.6%. Breaking down by sector, food processing and computer & electronic devices expanded in both new orders and production, while textile & garment and auto notably contracted.

### ■ Non-manufacturing PMI remained in contraction.

Non-manufacturing PMI edged up to 49.5% in Feb from 49.4%, below market expectation at 50%. Service PMI edged up to 49.7% from 49.5%, while new order index dropped to 45.7% from 47.1%. Price index of input and final sale picked up, indicating the reflation process also sustained in the service sector. Breaking down by sector, activities related to tourism and holiday consumption remained in high prosperity, including lodging & dining, sports & recreational activities, retail and air transportation; while capital market and real estate contracted. Construction PMI dipped from 48.8% to 48.2% in Feb as construction sites mostly suspended during the CNY.

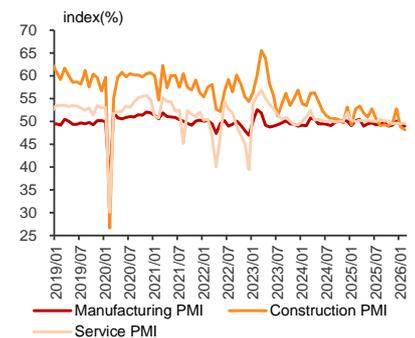
### ■ Eyes on the national Two Sessions for additional stimulus.

A softening property market, weaker durable goods sales, and slower manufacturing have pointed to fading growth momentum in early 2026. At tomorrow's annual NPC meeting, policymakers may keep the broad fiscal deficit at around 8% of GDP, to underpin the economy, including RMB5.9tn general budget deficit (4% of GDP), RMB1.3tn ultra-long central government special bonds (0.9%), and RMB4.5tn local government special bonds (3.1%). Additional measures include RMB500bn of CGSBs for capital injections into banks and insurance companies, and RMB2tn in local government debt-swap bonds. The 2026 GDP growth target may be lowered to "4.5-5%" compared to "around 5%" in 2025, consistent with the downward revisions seen in recent local "Two Sessions" targets.

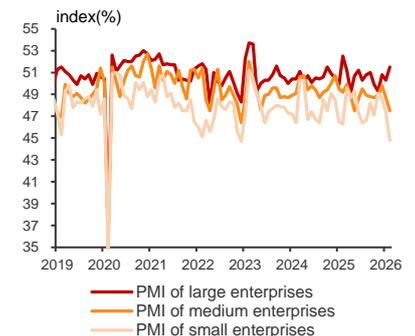
Frank Liu

(852) 3761 8957

frankliu@cmbi.com.hk

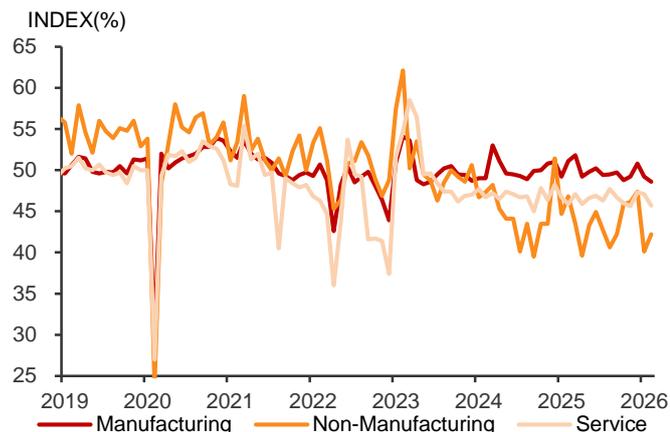


Source: NBS, CMBIGM



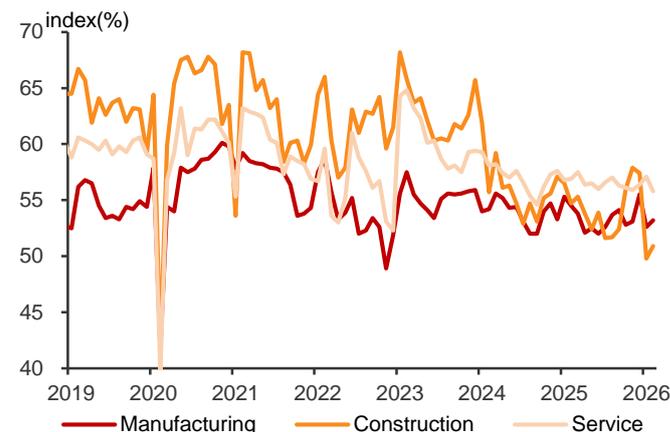
Source: NBS, CMBIGM

**Figure 1: New Order Index**



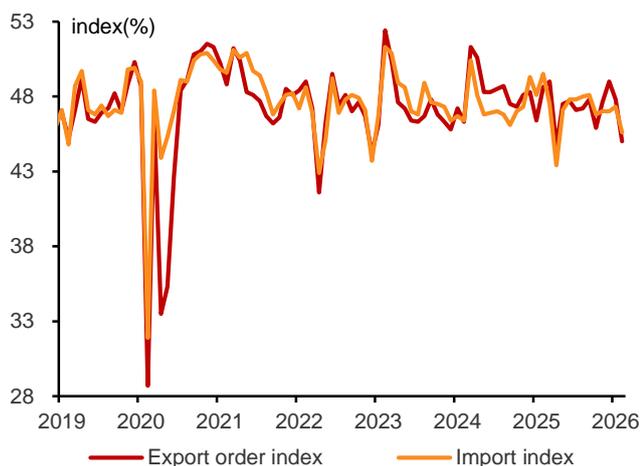
Source: Wind, CMBIGM

**Figure 2 : Business Sentiment Index**



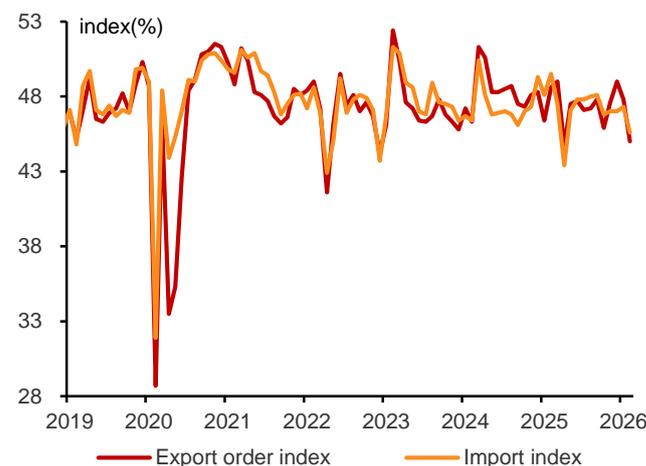
Source: Wind, CMBIGM

**Figure 3: Export Order Index and Import Index**



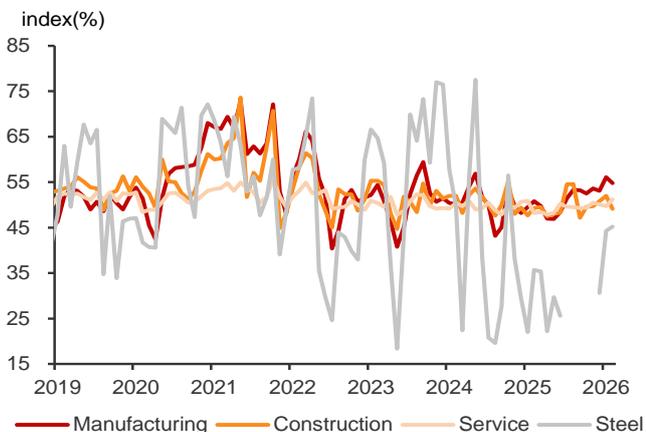
Source: Wind, CMBIGM

**Figure 4: Inventory Index**



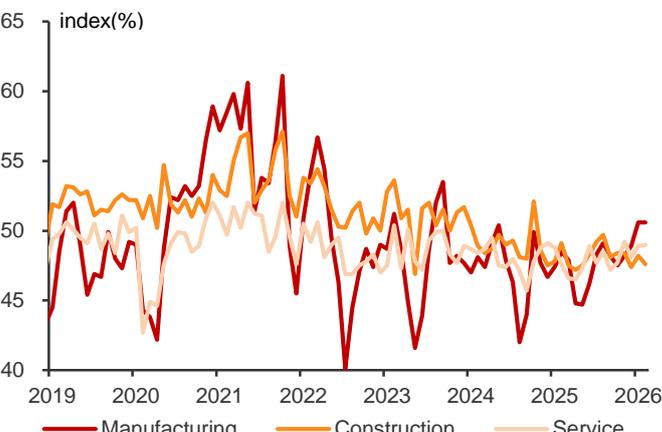
Source: Wind, CMBIGM

**Figure 5: Material Purchase Price Index**



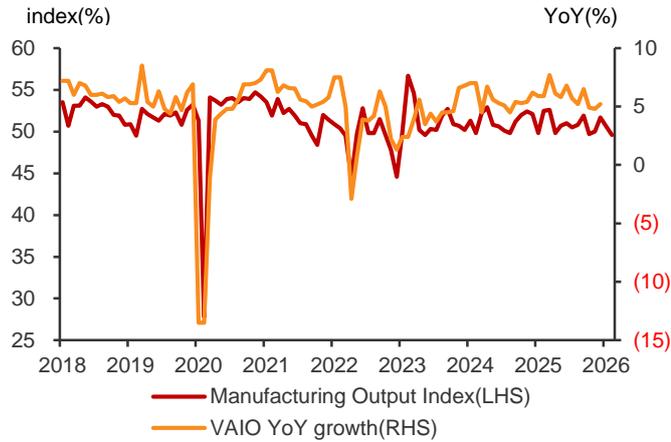
Source: Wind, CMBIGM

**Figure 6: Ex-factory Price Index**



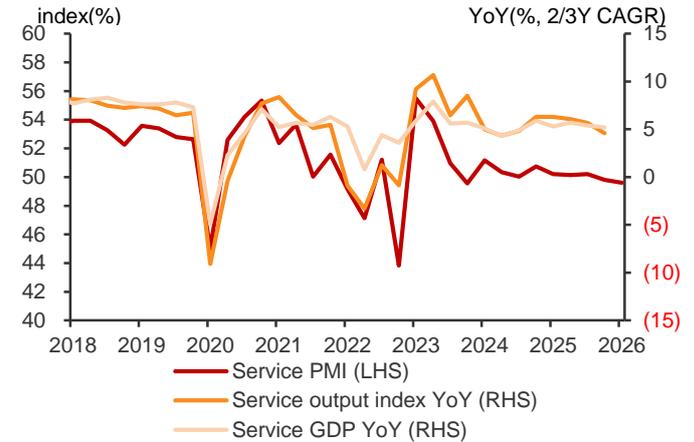
Source: Wind, CMBIGM

**Figure 7: Manufacturing Output Index**



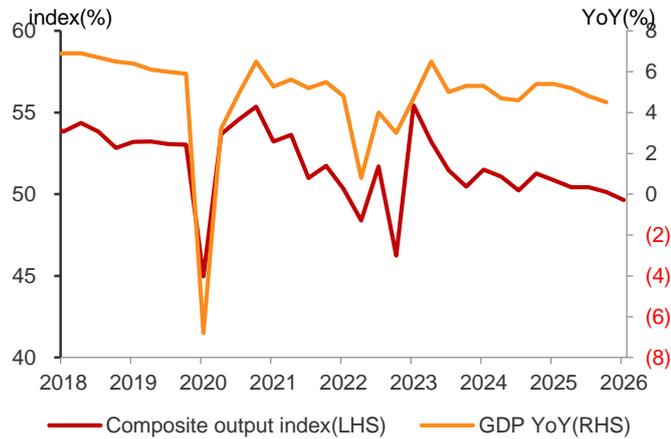
Source: Wind, CMBIGM

**Figure 8: Service PMI & Output Index**



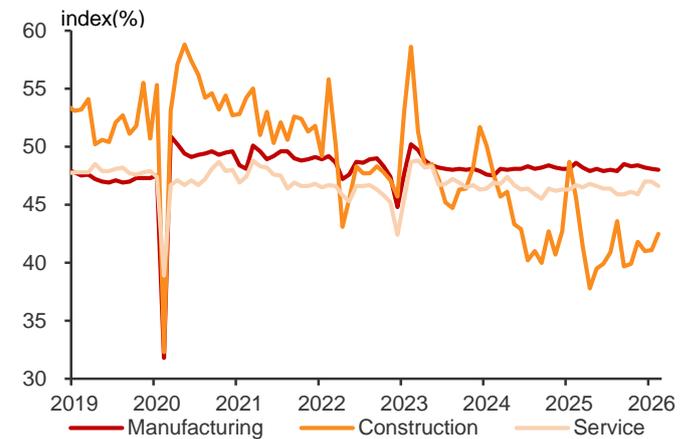
Source: Wind, CMBIGM

**Figure 9: Composite Output Index**



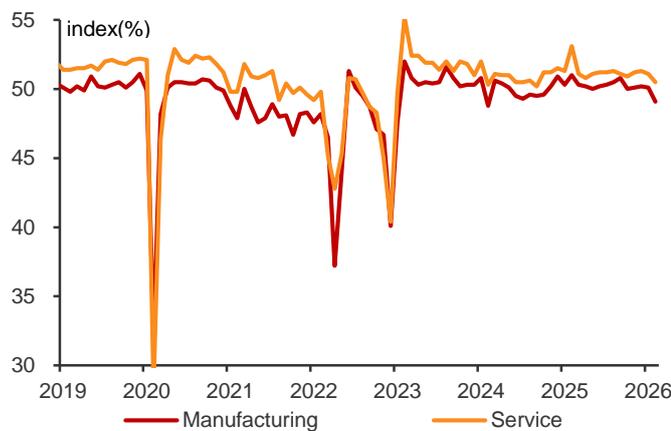
Source: Wind, CMBIGM

**Figure 10: Employment Index**



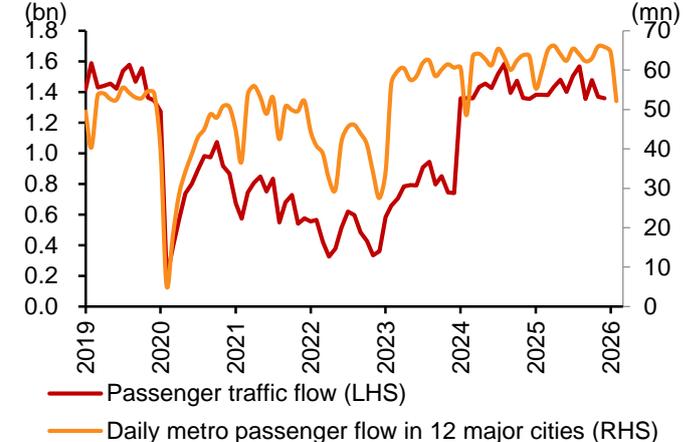
Source: Wind, CMBIGM

**Figure 11: Supply Delivery Index**



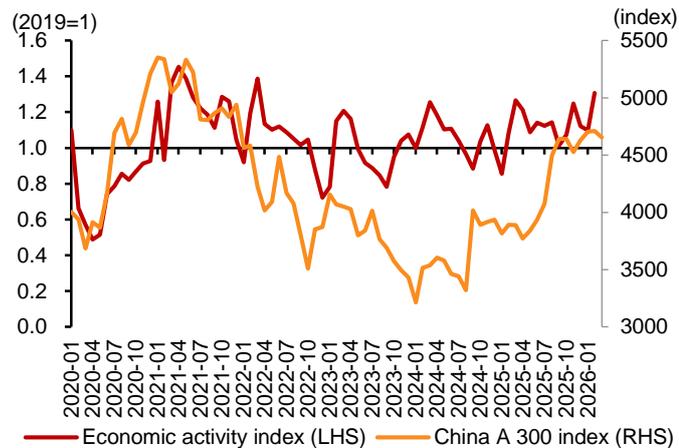
Source: Wind, CMBIGM

**Figure 12: Passenger flow**



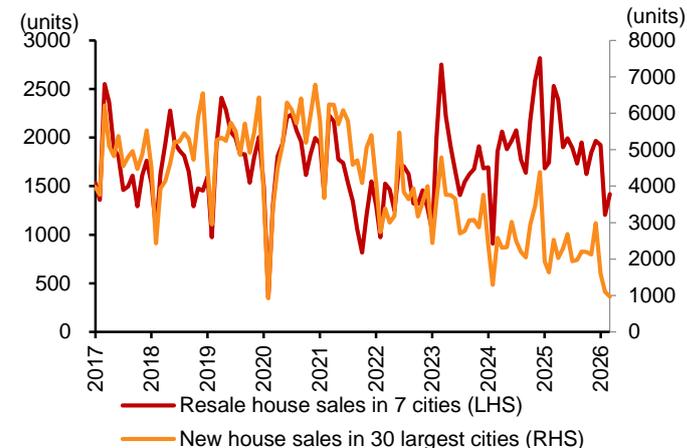
Source: Wind, CMBIGM

**Figure 13: Economic Activity & A Share Index**



Source: Wind, CMBIGM

**Figure 14: House sales**



Source: Wind, CMBIGM

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